

PSC ISSUES DECISION IN WATER RATE CASE

Jefferson City (May 4, 2001)---The Missouri Public Service Commission has cut by approximately two-thirds, a water rate increase request filed by the St. Louis County Water Company d/b/a Missouri-American Water Company. Based upon a thorough review of the evidence, the Commission has determined Missouri-American Water Company should be authorized to increase water revenues by approximately \$5.1 million a year. When the water company filed its rate request with the Public Service Commission on June 23, 2000, Missouri-American Water Company sought to increase water revenues by approximately \$17.5 million a year. This rate change will affect approximately 306,600 Missouri-American Water Company customers in St. Louis and Jefferson counties.

The new rates will take effect when the Company files and the Commission approves tariff sheets reflecting the Commission's decision. This is usually done within 10 days and not more than 30 days after the Commission issues its decision.

For a residential water customer using approximately 250 gallons of water a day, water rates will increase by about 3 cents a day under the rate case decision.

The Commission determined, based upon a thorough review of the evidence presented that the Missouri-American Water Company had experienced an increase in costs of providing service to its customers since its last rate case. Some of those costs involved capital improvements to the water company's treatment facilities and distribution system.

The Commission rejected Missouri-American Water Company's request that it be allowed to recover from its customers costs associated with the acquisition of National Enterprises, St. Louis County Water Company's former parent company, by American Water Works. The PSC Staff and the Office of the Public Counsel had opposed recovery of the costs on several grounds including that the costs were not recurring. The Commission agreed. "The costs associated with this issue are primarily related to the elimination of employees. As a result of the merger, the Company had the opportunity to reduce its workforce, but in doing so incurred separation and severance costs." In addition, the Commission rejected the Company's request that it be allowed to recover a portion of

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any "savings" which resulted from the merger under the Company's proposed "shared savings plan".

The Commission stated that it rejected this argument for two reasons. “First, the utility industry, including water utilities, seems to be pursuing mergers and acquisitions quite willingly without this Commission approving shared savings plans,” the Commission stated. “Second, the Commission does not need to allow utilities to keep these benefits to create an incentive to achieve efficiencies (either through successful mergers and acquisitions or otherwise); the lag inherent in the regulatory process provides sufficient incentive.”

St. Louis County Water Company’s request to add projected costs associated with implementing the Company’s infrastructure replacement plan to customer rates at this time was rejected by the Commission because it violates the “used and useful standards”. The Commission stated in its order: “In other words, it would require current customers to pay for plant that is proposed to be built in the future, and possibly not used to provide service until after some of them are no longer customers.”

In this rate case, Missouri-American Water Company sought a return on equity (return to its shareholders) of 12 percent. In its decision, the Commission granted a return on equity of 10.75 percent.

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